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AUTHOR Chronister, Jay L.; Kepple, Thomas R., Jr.
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ABSTRACT

An incentive early retirement program is an arrangement between employer and employee that provides tangible inducement or reward for voluntary early retirement. It may be a formal program or an ad hoc agreement negotiated with the institution. The most common incentives include severance pay, liberalized actuarial reduction, annuity enhancements, bridging benefit payments, partial or phased retirement, and other basically nonmonetary perquisites. Most institutions offer more than one incentive. Key factors in program development include faculty's role in the planning process, consideration of institutional characteristics and history, and federal and state regulations. Although observers do not agree unanimously on the effectiveness of such programs, most evidence supports their use. Effectiveness must be viewed from the perspectives of the needs and interests of both faculty and institution. Faculty acceptance is found to be higher than anticipated, but a possible disadvantage is the loss of valued faculty members. Incentive early retirement programs are likely to become increasingly popular as the cap on mandatory retirement is lifted. (MSE)

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Retirement Programs for Faculty

Jay L. Chronister, University of Virginia
Thomas R. Kepple, Jr., Rhodes College

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Incentive early retirement programs designed to encourage and facilitate the retirement of faculty before mandatory or a regular retirement age have become increasingly popular on college campuses during the past decade.

This monograph provides an extensive review of the literature on incentive early retirement programs, including the findings of several studies designed to assess the effectiveness of such programs. It addresses several topics: the reasons for which institutions develop the programs, key concepts and terms relevant to the topic, characteristics of different types of programs and the incentives offered, legal issues that must be addressed, costs and benefits, strategies for assessing the feasibility of development programs, and an assessment of the success of programs.

What Are Incentive Early Retirement Programs?

Incentive early retirement programs are an arrangement between an employer and an employee that provides a tangible inducement or reward for early retirement. The decision is voluntary on the part of the employee, and the incentives are structured so that within institutionally established criteria, the faculty member identifies himself or herself as a candidate for participation.

Such programs may be ad hoc in nature—in which the faculty member individually negotiates the incentives (benefits) with the institution—or formal—in which the institution has established the incentives that will be offered to a class of faculty identified as meeting the institution's criteria for eligibility to participate.

These programs can be classified as benefiting primarily faculty or the institution, depending upon the reasons for which they are established. A recent study of programs in 51 public institutions identified nearly 60 percent of the incentive offerings as being beneficial to the institution (Chronister and Trainer 1985a).

The most common incentives used in early retirement programs include a severance-pay or lump-sum payment, a liberalized actuarial reduction, annuity enhancements, bridging benefit payments, partial or phased retirement, and/or other basically nonmonetary perquisites. Most institutional programs include combinations of incentives to meet the diverse interests of faculty. A study of 39 private liberal arts colleges found that nearly 21 percent of the institutions offered two or more incentive options to faculty (Kepple 1984), while among the 51 public universities, approximately 55 percent of the institutions offered multiple incentives (Chronister and Trainer 1985a).

How Are Programs Developed?

Assessing the feasibility of establishing an incentive early retirement program is a complex undertaking. The development of such a program must be based on the characteristics of an institution's basic retirement plan, the needs the program is designed to address, and the relevant characteristics of the faculty to whom it is addressed. Whether an institution has a defined contribution or a defined benefit retirement plan has important implications for the nature of the incentives that might be required.

A key question that will affect the nature and success of an early retirement program relates to the role of the

faculty in its development. Most early retirement programs identified as successful in this report involved faculty committees or representation in program development. Such involvement ensures that faculty concerns are addressed during development of the program and provides for faculty members' better understanding of the purposes for which the program is created.

The age distribution of faculty and their historical retirement patterns have implications for choosing the threshold age for faculty participation. Activities important to developing an incentive program include computer flow modeling of faculty on selected characteristics, such as age and tenure status, under differing assumptions and cost/benefit analysis of different incentive options from both the institution's and the faculty's perspectives.

A number of federal and state statutes and regulations must be considered in program development. Incentive early retirement programs may be affected by the current social security law, the Employee Retirement Income Security Act, the Age Discrimination in Employment Act as amended in 1978 and 1986, and federal tax considerations, including those introduced by the Tax Reform Act of 1986. Federal statutes and regulations in particular often present complex legal problems, and the implications for the institution and the individual may be far from inconsequential. Moreover, certain state statutes may also be applicable. It is therefore important that legal counsel be involved in the process at some time before the program is implemented.

Have Early Retirement Programs Been Successful?

Although observers do not agree unanimously on the effectiveness of incentive early retirement programs, the majority of the information gathered for this report supports the use of the programs. This observation is not intended to present such programs as a panacea for curing staffing problems or financial woes, however.

In assessing the effectiveness and success of these incentive programs, it is necessary to view them from the perspectives of both institutions and faculty participants. Success from the institutional view may be a function of such factors as the number of vacancies created, a reduction in tenure ratio, and/or a reduction in personnel costs. Success from the faculty's perspective can be assessed in terms of whether the program allows the individual to pursue personal and professional objectives that continued employment would deter and whether the retiree's income after retirement permits the maintenance of a lifestyle that is approximately equivalent to that of retiring at a "normal" age. The degree to which eligible faculty members actually participate in the program may be viewed as a measure of the program's success.

Nearly 49 percent of the 39 liberal arts colleges cited in this monograph indicated that faculty participation in their early retirement programs equaled or exceeded expectations, while 42 percent stated their programs had not been in existence long enough to make a judgment (Kepple 1984). Although no explicit numerical goals had been established for the majority of programs at the 51 public universities, 80 percent of the institutions offering full early retirement options indicated that faculty participation had been at or above the expected level (Chronister and Trainer 1985a).

The limited number of published studies about faculty reactions to participation in incentive early retirement programs indicates generally positive acceptance. A 1977 study of early retirees found that 93 percent of the early retirees were satisfied with their decision and 90 percent would make the same decision again (Patton 1979).

The use of formal incentive programs can also significantly affect the quality of a campus. A number of institutions have reported that as a result of offering an attractive incentive retirement program, they lost senior faculty members that they would rather not have lost.

What Is the Future of Incentive Early Retirement Programs?

Incentive early retirement programs have been generally termed successful in meeting the purposes for which they were established at most campuses. With passage of the amendments to the Age Discrimination in Employment Act, which abolished mandatory retirement by reason of age, and with the growth in the proportion of the faculty who will be 55 to 65 over the next 15 years, incentive early retirement programs should become increasingly popular as a personnel management tool, recognizing that to be effective such programs must address the interests and needs of faculty.

Selected References

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